

THE BOND BUYER

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Massachusetts to Resume Retail Notes Program

by [Paul Burton](#)

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Starting Monday, Massachusetts plans to sell \$60 million over two weeks to kick off the latest leg of its [MassDirect](#) notes sale.

In all, Massachusetts plans to provide \$510 million of general obligation rolling offerings targeted to retail investors over nine months.

In addition, the commonwealth on Wednesday plans to sell \$700 million of GOs competitively in two series, including a \$200 million taxable series.

Public Resources Advisory Group is financial advisor for the competitive GO deals.

Citi is managing the sale of Series 10 and 11 MassDirect notes, each \$30 million.

The commonwealth began the program in March, modeling it after the U.S. Treasury's TreasuryDirect program as well as several corporate medium term note programs, including Caterpillar Inc., GE Capital and Duke Energy Corp.

Sold through electronic trading platform TMC Bonds LLC, the program offers maturities of 10 years or fewer.

TMC reaches more than 125,000 retail advisors nationwide, according to Colin MacNaught, the commonwealth's assistant treasurer for debt management.

Electronic trading allows state officials to change yields daily, adjust the couponing on the bonds being offered based on real-time investor demand, and provide same-day order confirmation.

It also enables the commonwealth to provide pre-price transparency of the bonds.

"I believe that this MassDirect initiative is on the vanguard of how retail bonds are going to be sold for larger, frequent and very transparent issuers. And the commonwealth is state of the art for disclosure," said Ward Marsh, head of Citi's municipal research division.

"It is unparalleled in accessing so many people to buy bonds," Marsh said.

"Issuers like Massachusetts like to see broad distribution of the primary market product," Marsh added. "Broader demand means lower borrowing costs, and Colin has seen the benefits."

The electronic offering and its frequency are central to the program, according to MacNaught.

He said that given the feedback from retail investors and their advisors, MassDirect notes could serve as another funding vehicle for the state's capital plan.

"What appeals to my accounts is their ability to access bonds and the flexibility, as to coupon and maturity, that the MassDirect program offers," said Mike Festa, a managing director at Janney Capital Markets.

Moody's Investors Service rates Massachusetts GOs Aa1.

Fitch Ratings and Standard & Poor's rates the commonwealth AA-plus.

Moody's said its rating reflects "strong financial management practices and its demonstrated willingness to balance its budget when necessary through spending cuts, revenue increases and use of revenues."

Challenges, said Moody's, include state debt ratios among the nation's highest and large unfunded pension liabilities.

In a report earlier in the month, Moody's pegged Massachusetts' adjusted net pension liability at \$70.9 billion or 155.5% of fiscal 2013 revenues.

When Massachusetts began the notes program, it intended to sell \$250 million in bonds through August.

With demand greater than expected, the commonwealth, after nine different weeks of sales, sold out one month earlier than planned.

State officials took a break in August to further study the program. One major benefit, according to MacNaught, was expanding the investor base.

He said 44 different firms participated and placed orders for bonds. This included several muni firms that normally do not participate in primary market offerings. Average order size was \$231,481, said MacNaught.

MacNaught said bonds are repriced daily during the offering week, based on each day's market movement. Before starting a week of sales, state officials determine the spreads at which they will offer the bonds.

The \$510 million represents about 25% of the commonwealth's GO borrowing for fiscal 2015, according to MacNaught.

